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E.O. 12958: DECL: 06/12/2018
TAGS: ECON EFIN IR IZ KNNP PARM PTER
SUBJECT: SHUTTING DOWN BANK SEPAH AND REVIEWING IRAN'S
FINANCIAL PRESENCE IN IRAQ

REF: A. REF A: STATE 75291
1B. REF B: BAGHDAD 2075
1C. REF C: BAGHDAD 94
1D. REF D: STATE 43381

Classified By: ISN Patricia A. McNerney for
reasons 1.4 (b) and (d)

11. (U) This is an action request. Please see paragraph 5.

SUMMARY/BACKGROUND

12. (S/REL IRAQ) Following a report in late May 2007 that Bank Sepah intended to open up a branch in Baghdad, U.S. officials approached Deputy Foreign Minister Labid Abbawi on June 18, 2007, to request that Iraq prevent the establishment of a Bank Sepah branch in Iraq, based on its designation under UNSCR 1747 (ref A). DFM Abbawi promised cooperation and stated that he would consult with the Central Bank of Iraq (CBI) to discuss the situation (Ref B). A U.S. official also approached CBI officials on June 20 to prevent the establishment of a Bank Sepah branch in Iraq, and received assurances that Bank Sepah would not be allowed to operate in Iraq (ref B).

13. (S) In May 2007 Central Bank of Iraq (CBI) officials allowed Iran's Bank Sepah - designated in UNSCR 1747 in March 2007 for providing support to Iran's Aerospace Industries Organization and subordinates, including Shahid Hemmat Industrial Group (SHIG) and Shahid Bagheri Industrial Group (SBIG), both of which were designated under UNSCR 1737 - to open a branch in Baghdad (Ref C). The USG informed Baghdad in June 2007 that Iraq would be in violation of UNSCR 1747 if it allowed Bank Sepah to open and operate (ref A) a branch in Iraq. Iraq must freeze immediately Bank Sepah's assets, must ensure no funds or other economic resources are made available to Bank Sepah, and should revoke its banking license.

14. (S) The establishment of a Bank Sepah branch in Iraq is only one of the ways in which Iran has established its financial foothold in Iraq. We have ample evidence of Iran's efforts to use its state-owned banks to facilitate proliferation and to bypass international sanctions, and it is possible that Iran could be using other currently operating or planned Iranian banks in Iraq to facilitate proliferation or terrorism. Iraqi officials should investigate and take action or exercise vigilance accordingly to ensure its territory will not be potentially be used for these purposes. In light of UNSCR 1803, GOI should take the appropriate steps to prevent the establishment of new Iranian financial institutions and exercise enhanced vigilance for existing Iranian financial institutions operating in their country.

OBJECTIVE/ACTION REQUEST

¶5. (S/REL IRAQ) Washington requests Post deliver the non-paper in paragraph 6 to the host government at the highest appropriate level to convey the seriousness of the request and inform officials in the Ministries of Foreign Affairs and Finance, the Central Bank Head Office in Baghdad, the Kurdistan Regional Government (KRG) Ministry of Finance, and the CBI Branch Office in Erbil. Note that information regarding the Export Development Bank of Iran's intention to establish a joint bank in Erbil may have already been briefed to some Ministries (ref D). Post should pursue the following objectives:

-- Urge the Government of Iraq (GOI) immediately freeze Bank Sepah's assets as required by UNSCR 1747, and revoke its banking license.

-- In addition to the action against Bank Sepah urge Iraq to revoke the licenses of Bank Melli and Bank Saderat, both of which are called out in UNSCR 1803 for increased vigilance

-- Emphasize the growing international consensus on the risks of engaging in Iran-related business supported by the Financial Action Task Force (FATF) statements on deficiencies in Iran's anti-money laundering and counter-terrorism finance (AML/CTF) regime.

-- Provide additional information as provided in the non-paper on Iraq's obligations with regard to Bank Sepah and the Export Development Bank of Iran's intention to establish a joint bank in Erbil, Iraq, and urge Iraq to immediately end all discussions on establishing the proposed joint bank in light of UNSCR 1803 and in recognition of FATF statements.

-- GOI should refrain from issuing any more licenses to Iranian banks and re-evaluate the establishment of other Iranian financial institutions within Iraq and withdraw any plans for their approval.

NONPAPER FOR IRAQ

¶6. (SECRET/REL IRAQ) BEGIN NON-PAPER FOR IRAQ:

BANK SEPAH

-- We would like to raise serious concerns about Iranian financial activities in Iraq, especially with regard to the establishment of a branch of Iran's Bank Sepah in Baghdad in May 2007.

-- Bank Sepah is directly associated with Iran's missile program, and was designated by the UN Security Council in UNSCR 1747 for providing support to Iran's Aerospace Industries Organization and subordinates, including Shahid Hemmat Industrial Group (SHIG) and Shahid Bagheri Industrial Group (SBIG), both of which were designated under UNSCR 1737.

-- The government of Iraq (GOI) is obligated under UNSCR 1747 to ensure no funds or economic resources are provided to a Bank Sepah branch and the GOI is required to immediately freeze any Bank Sepah assets on its territory. We also urge the GOI to revoke Bank Sepah's banking license.

-- Operative paragraph 12 of UNSCR 1737 and operative paragraph 4 of UNSCR 1747 require Member States to a) freeze the funds, other financial assets and economic resources which are on their territories that are owned or controlled by persons or entities designated in the annexes to the resolutions (or others designated by the Security Council or 1737 Sanctions Committee); and b) to ensure that any funds, financial assets or economic resources are prevented from being made available by their nationals, or by persons or entities within their territories, to any persons or entities so designated.

PROPOSED IRAN-IRAQ JOINT BANK AND OTHER IRANIAN BANKS
OPERATING IN IRAQ

-- We urge Iraq to follow the growing consensus of financial institutions and end financial relationships with Iran and Iranian banks, in light of FATF guidance and UNSCR 1803, which calls on States to exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, as well as their branches and subsidiaries abroad, in order to avoid activities contributing to proliferation sensitive nuclear activities or to the development of nuclear weapon delivery systems.

-- Specifically, we know Bank Melli Iran established a branch in Baghdad in June 2007. The first joint Iraq-Iran bank, established by Iran's Eqtesad Novin Bank and Bank Keshavarzi and an Iraqi bank, opened in Baghdad in summer 2007. In December, the consortium opened a Karbala branch, and a third branch in Najaf is estimated to open soon. Other branches in Basrah, Irbil, and Sulaymaniyah are scheduled to open within the year.

-- The Export Development Bank of Iran (EDBI) as of mid-March 2008 was working with Iraqi shareholders to establish a joint bank in Erbil, Iraq. The newly formed bank will be named the Regional Bank for Investment and Development (RBID). RBID shareholders would be responsible for obtaining approval from the Central Bank of Iraq for the establishment of the new bank.

BANK MELLI and BANK SADERAT

-- We urge Iraq to stop issuing new licenses to Iranian banks, revoke the licenses of Iranian Bank Melli and Bank Saderat, given the call in UNSCR 1803 to exercise particular vigilance over their activities, and end discussions on the proposed joint bank in light of UNSCR 1803 in order to avoid activities contributing to proliferation sensitive nuclear activities or to the development of nuclear weapon delivery systems.

-- We would note that the U.S. in October 2007 designated Bank Melli and Bank Saderat under Executive Orders 13382 and 13224, respectively.

-- Bank Melli is Iran's largest bank. Bank Melli provides banking services to entities involved in Iran's nuclear and ballistic missile programs, including entities listed by the U.N. for their involvement in those programs. This includes handling transactions for Bank Sepah, Defense Industries Organization, and Shahid Hemmat Industrial Group. Following the designation of Bank Sepah under UNSCR 1747, Bank Melli took precautions not to identify Sepah in transactions. Through its role as a financial conduit, Bank Melli has facilitated numerous purchases of sensitive materials for Iran's nuclear and missile programs. In doing so, Bank Melli has provided a range of financial services on behalf of Iran's nuclear and missile industries, including opening letters of credit and maintaining accounts.

-- Bank Saderat, which has approximately 3200 branch offices, has been used by the Government of Iran to channel funds to terrorist organizations, including Hizballah and EU-designated terrorist groups Hamas, PFLP-GC, and Palestinian Islamic Jihad. For example, from 2001 to 2006, Bank Saderat transferred \$50 million from the Central Bank of Iran through its subsidiary in London to its branch in Beirut for the benefit of Hizballah fronts in Lebanon that support acts of violence. Hizballah has used Bank Saderat to send money to other terrorist organizations, including millions of dollars on occasion, to support the activities of Hamas. As of early 2005, Hamas had substantial assets deposited in Bank Saderat, and, in the past year, Bank Saderat has transferred several million dollars to Hamas.

ENHANCED SCRUTINY OF IRANIAN BANKS

-- We also urge Iraq to implement, consistent with UNSCR

1803, enhanced regulatory controls, including by prohibiting all international transactions and transactions involving any dual-use technology and establish reporting and/or licensing requirements for all transactions executed by Iranian banks remaining in Iraq.

-- Exercising vigilance regarding other Iranian financial institutions is also consistent with the Financial Action Task Force (FATF) statements on deficiencies in Iran's anti-money laundering and combating terrorist financing (AML/CFT) regime (available at <http://www.fatf-gafi.org>). FATF has issued two public statements of concern in the past year that deficiencies in Iran's AML/CFT regime represent a significant vulnerability within the international financial system.

-- As a member of the Middle East North Africa Financial Action Task Force (MENA-FATF) the GOI should consider advising financial institutions to weigh the serious risks of engaging in any business with Iranian entities and individuals, and to enhance due diligence, to ensure that banks in Iraq are not facilitating terrorism-related payments.

-- We look forward to working with you on this and other related security and counterproliferation matters, and are prepared to provide additional information and assistance as appropriate.

END NON-PAPER FOR IRAQ

REPORTING DEADLINE

¶7. (U) Post should report results by close of business within seven days of receipt of cable. Please slug replies for ISN, T, Treasury, and NEA. Please include SIPDIS in all replies.

POINT OF CONTACT

¶8. (U) Washington point of contact for follow-up information is Jennifer Chalmers, ISN/CPI, (202) 647-9715, chalmersja@state.sgov.gov, or Anthony Ruggiero, ISN/CPI, (202) 647-5181, ruggieroaj@state.sgov.gov.

¶9. (U) Department thanks Post for its assistance.
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